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ABSTRACT

This booklet for trustees of institutions of higher education addresses the role of boards of related non-profit fund-raising foundations. The booklet begins with an explanation of four advantages of such foundations to host institutions, such as separating gift funds from public funds. Suggestions for making foundation boards more effective stress the importance of a mutually supportive relationship with the host institution, managing assets wisely, and contributing to the institution's public relations program. Also addressed are foundation board recruitment, the board's major responsibility of soliciting gifts, relationships between governing and foundation boards, linking the foundation and the institution, and setting fund-raising priorities. Dangers of too close a relationship between the foundation and its host institution are also noted. Finally, the booklet considers estimates of costs for funding the foundation and tailoring the foundation to the institution. Among principles stressed is the importance of enabling rather than restricting the foundation in order to maximize the advantages and benefits offered by an independent foundation. (DB)

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BOARD BASICS

FOUNDATION RELATIONS

# THE ROLE OF THE FOUNDATION BOARD

BY CURTIS R. SIMIC

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ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

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Curtis R. Sims [illegible] more than 30 years [illegible] experience in university development, advancement, and administration. He has been president of the Indiana University Foundation since 1985. Under his leadership, contributions to the university have increased nearly 5 percent.

Prior to returning to Indiana University (where he earned his undergraduate degree), Sims served as vice chancellor for development and president of the foundation at the University of California at Berkeley. He also has headed development, alumni, and public relations programs at the University of Tennessee Center for the Health Sciences, Yale University School of Medicine, the University of Alabama, and the University of Oregon.

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# The Role of the Foundation Board

Multimillion-dollar fund-raising campaigns used to be the domain of private colleges and universities. Public institutions relied on state and federal government funds, student tuition and fees, and auxiliary enterprises for income. But no more. Leaders at public institutions have discovered that private gifts and grants provide flexibility that traditional funding sources do not, and a growing number are launching fund-raising campaigns with announced goals in the hundreds of millions of dollars.

Because fund-raising has become vitally important to public institutions, governing boards must identify and consider various strategies that will help them obtain private funds. One such strategy is to create a nonprofit fund-raising corporation or foundation. Nearly all public higher education institutions or systems have established a separately incorporated foundation.

Foundations have unique features that make it easier for a public institution to raise and distribute private funds. Foundations offer their host institutions the following advantages:

***1. They offer expanded opportunities for making "insiders" out of "outsiders."*** Allied foundations provide colleges and universities the opportunity to engage more individuals of influence in service to the institution. Through foundation board membership and its attendant responsibilities, individuals become involved in an organization that is vital to the well-being and progress of the institution. As a result of their commitment to the institution and partnership with the governing board, foundation board members become important allies and advocates for the institution.

THE FOUNDATION'S AGENDA MUST REFLECT THE ITEMS OF GREATEST IMPORTANCE TO THE PROGRESS OF THE INSTITUTION.

Additionally, in cultivating relationships and affiliations with individuals, corporations, and nonprofit philanthropic organizations not naturally allied with the institution, foundation directors gain their institutions tangible and intangible benefits. The time, effort, energy, and resources foundation officials invest in creating close and continuing relationships not only foster increased giving but also reap greater numbers of ambassadors and advocates, enhanced goodwill, and heightened visibility for the institution.

***2. Allied foundations provide effective mechanisms for separating gift funds from public funds.*** Virtually everyone agrees that giving to a foundation is more attractive than giving to a state government. After all, how many prospective donors are likely to give money to a state agency, where gifts could be absorbed into the enormous pool of state dollars? Benefactors want the reporting, stewardship, and accountability that a donor-responsive organization can give them. Foundations enable donors to see the benefits that accrue to the institution as a direct result of their gifts. For many donors, there is no greater satisfaction.

***3. An allied foundation gives its host institution greater flexibility in the expenditure of funds.*** For very good reasons, state dollars can be spent only in tightly prescribed ways. State funds also carry stringent requirements for bid procedures, limitations on expenditures, and time frames to meet various obligations. Such constraints make clear the ways in which allied foundations can serve public institutions.

***4. Foundations enable institutions to seize opportunities that otherwise might slip away from the institution.*** Often, such opportunities enhance the educational resources of the institution. For example, a special library collection might become available on the market between legislative sessions or at a time that is out of sync with the budget year. A bid procedure would be impractical, and the institutional resources to make the purchase would not be available because they were unbudgeted. Donated funds, held in reserve for just such opportunities, could be used immediately to purchase the collection.

MAKING FOUNDATION BOARDS MORE EFFECTIVE. A foundation can contribute most effectively to its host institution when the relationship between the two organizations is mutually supportive, responsibilities of the two entities are defined clearly, operational structures are conducive to success, and members are selected with care and given significant responsibilities.

The activities of foundation board members stem directly from the mission of the foundation: fund-raising, funds administration, asset management, and creating and developing relationships. It is the foundation board's responsibility to refine that mission and set policies and goals to achieve it. Additionally, foundation board members are in a unique position to advance a public institution's mission by giving generously of their own funds and by persuading others to do so. In this capacity, their importance cannot be overstated. Because they are leaders in other sectors and professions, they can significantly influence the fund-raising support for a public college or university.

The foundation's agenda must reflect the items of greatest importance to the progress of the institution. When board members are assigned to working committees, they are able to become involved with substantive matters. Because board members usually are affluent and knowledgeable about finance, many express interest in being assigned to the investment and audit committees. Further, institutional officers should take care to assign board members to fund-raising projects that reflect their personal interests.

In the area of fund-raising, the foundation board (in conjunction with the institution's administration and key members of the governing board) is responsible for (1) ensuring fund-raising priorities are met, (2) determining the feasibility of funding proposed initiatives and projects, (3) identifying and overseeing the costs associated with fund-raising, (4) developing fund-raising plans (short term and long range), and (5) measuring performance against goals.

In the area of funds administration, the foundation board charts policies and procedures for establishing funds, disbursements, authorization, and reporting. These matters are vital to maintaining the fiscal and legal integrity of the foundation and to fulfilling the organization's responsibility to donors.

Managing assets wisely requires foundation directors to understand clearly and thoroughly the institution's requirements for current and endowed funds, as well as policies and procedures concerning access. They also must be able to evaluate the performance of investments. Simply put, directors must ensure that investments maximize gift income within acceptable levels.

The foundation board can contribute to the success of the institution's public-relations program. Directors can be highly effective spokespersons in various situations. As *volunteers* (those not in the employ of the institution or foundation), their advocacy carries a higher degree of objectivity and independence—on some issues and with some audiences—than that of the professional staff. Additionally, directors can encourage the institution to invite leaders from business, the professions, labor, and government to special receptions, cultural and sporting events, graduation ceremonies, and other campus programs. Further, they occasionally can offer to host some of these events, which can be valuable in developing important relationships, opening up the institution to more friends and donors, and creating a greater understanding between the university and community.

Although foundation directors never should speak with members of the media without authorization from the foundation's senior officer and perhaps the institution's president, they can encourage the news media to present balanced views of higher education by reporting on the institution's core functions—programs relating to teaching and learning, research (in some institutions), and service.

MANAGING ASSETS WISELY REQUIRES FOUNDATION DIRECTORS TO UNDERSTAND CLEARLY AND THOROUGHLY THE INSTITUTION'S REQUIREMENTS FOR CURRENT AND ENDOWED FUNDS.

As for donor relations, board members should express formal appreciation for gifts. A familiar adage in fund-raising proposes that thanking a donor appropriately is the first step toward soliciting his or her next gift. At the very least, thanking donors demonstrates the institution's sincere appreciation.

Finally, members can inform their peers in corporations, foundations, alumni groups, parent associations, and federal, state, and local governments of the institution's impact on areas of specific concern.

FOUNDATION BOARD RECRUITMENT. As is the case with trustees and regents, good foundation board members have integrity and expertise, and they must be capable communicators and effective advocates among their peers and with community, state, and national leaders. In addition, foundation board members must be able to provide financial support within their means and to influence others to do likewise. Clearly, members must be selected carefully.

Many foundation boards now have nominating committees—sometimes called the committee on directors—charged with recruiting board members committed to the mission of the institution and the foundation. The long-term effectiveness and accomplishments of the foundation often are products of the nominating committee's capability to determine the board's membership needs, recruit new members, develop the talents and skills of existing directors, and evaluate the performance of the board.

The composition of the foundation board should reflect the institution's constituencies and donor base. For example, if a sizable number of prospective donors are Asian, the committee should identify and recruit leaders from the Asian community. If the institution seeks corporate support, the nominating committee should recruit corporate leaders to the

foundation's ranks. If the institution seeks philanthropic foundation support, committee members should recruit individuals who serve on such boards or who are acquainted with those who do so.

In this way, foundation boards differ from public institution governing boards, which often are limited in size and whose members frequently are political appointees. Although governing board members *can* be excellent fund-raisers, they often are not. Therefore, a foundation board composed of affluent and influential volunteers is a great asset to the institution in obtaining private funds. As a result, public institutions can gain the same fund-raising advantages as private institutions, the boards of which are appointed for fund-raising reasons (as well as others, of course).

GOVERNING AND FOUNDATION BOARDS THAT COLLABORATE EFFECTIVELY CAN SIMPLIFY PLANNING AND ENSURE THAT THE TWO BOARDS AGREE ON FUND-RAISING PRIORITIES FOR THE INSTITUTION.

Naturally, such influential individuals are sought by all sorts of organizations, so they must be persuaded to join a foundation board by helping them understand that their board membership is vitally important to the institution. Work, wisdom, and wealth are the essential ingredients of an ideal foundation board member. The greater the number of members who can contribute all three, the more successful the institution will be in fulfilling its mission.

SOLICITING GIFTS. Because a foundation exists to raise and administer funds, its board members have a greater personal responsibility to help cultivate and solicit gifts than do politically appointed governing board members. The foundation staff and the institution's development staff should be charged with assembling the most appropriate solicitation team to meet with each major donor prospect.

The institution's president and the foundation board chair play key roles in the cultivation process. Often, their knowledge and conviction can convince major donors to support a project or program or turn the tide in favor of the institution if a donor is undecided or initially resistant.

A word of caution here: The institution's chief executive should not be overly involved in solicitation. Only those prospects with exceptional giving potential should be in his or her domain—and only after foundation staff or board members have completed extensive research and analysis of the prospect's interests and resources. The same caution holds true for the foundation board chair. Foundation staff should examine a list of potential major donors to the institution to uncover those who will be most receptive to the persuasive powers of the two leaders (or to other board members).

Regardless of a foundation board's effectiveness in carrying out the full range of fund-raising responsibilities, members first must recognize that they are among their institution's most visible and natural donor base. Individual board members should be expected to make a personal gift to the institution commensurate with their resources and responsibilities, even if the gift is modest. When a foundation board and governing board can claim 100 percent giving, they demonstrate their commitment to the institution's mission and set the stage for other major donors.

**Relationships Between Governing and Foundation Boards.** Relationships among individuals undoubtedly are the most effective working arrangements, but formal interactions and relationships also can foster closer cooperation between the two boards, help minimize the potential for conflict, and ensure that members of each board work together to strengthen the institution. Governing and foundation boards that collaborate effectively can simplify planning and ensure that the two boards agree on fund-raising priorities for the institution.

A useful technique is to include governing board members on the foundation board, provided they do not dominate in number. Governing board members also can serve effectively on foundation committees even if they are not members of the foundation board.

Additionally, foundation officers can be valuable members of governing board committees or useful communication links between the boards if they occasionally are invited to attend governing board meetings. Regular written or verbal reports—especially from the foundation board to the governing board—are essential. At a minimum, the foundation must annually report in detail its activities and results to the governing board. This kind of interchange is one of the most effective ways to create or strengthen the relationship between the boards.

**Linking the Foundation and the Institution.** Foundation boards have many constituencies. Chief among them are potential benefactors, who interact with the foundation in a rhythmic, carefully planned series of respectful contacts.

Other groups—faculty, administration, students, and staff—unfortunately are not always afforded the same thoughtful consideration. This is true in any development operation, but tensions can heighten when an independent foundation is involved. The senior staff officer of the foundation should be included in the team of top university administrators to facilitate working relationships, enhance communication, and help identify and resolve issues that affect both organizations.

Often, faculty inherently distrust administrators; this general misgiving can be magnified in the case of a foundation because the faculty has no control over a legally separate foundation. Nevertheless, key faculty members must be full partners in a university's fund-raising operation if the program is to succeed. The foundation staff supplies the technical expertise, but the faculty supplies the "inspiration" for potential donors. Regular meetings between a foundation senior-staff member and a faculty committee are effective venues in which to address and resolve faculty concerns—and to prevent misunderstandings. The foundation staff should respond to faculty issues and raise others on which faculty input is essential.

Also, foundation partnerships with other campus organizations that serve external constituencies can promote communication across the institution, help develop unified approaches to specific opportunities, and anticipate and solve problems. These groups include the alumni organization, university or community-relations offices, intercollegiate athletics programs, and government-relations and public-relations offices.

Finally, foundation board members should consider inviting guests to meetings and recruiting campus "consultants" to serve on board committees. Such invitations help make "insiders" out of "outsiders" from within the university family, ensure that thorough discussions of important issues occur, and aid in the development of constructive relationships—to the benefit of the institution.

MOST IMPORTANT, FOUNDATION DIRECTORS MUST BE MINDFUL THAT THEY ARE NOT IN THE BUSINESS OF SETTING PRIORITIES FOR THE UNIVERSITY.

**SETTING FUND-RAISING PRIORITIES.** When independent organizations work together, their mutual responsibilities must be defined clearly, and all parties must be mindful of their specific missions and duties. In public higher education, this is especially true in setting fund-raising priorities, a process that often is open to ambiguity over who's in charge. The issue affects the foundation's relationship with the entire university, from the chief executive and governing board to individual faculty members. Ideally, the process of setting fund-raising priorities should be carefully conducted, and all key players—foundation directors, trustees or regents, senior staff, and selected faculty—have a role to play in developing the process. Further, the process should be open to examination by any constituent.

Most important, foundation directors must be mindful that they are not in the business of setting priorities for the university. That responsibility rests with the governing board, administration, and faculty. The foundation is responsible for (1) determining the priorities that might be achieved through private funding and (2) providing the expertise to raise those funds.

REGARDLESS OF THE SPECIFIC PROCESS AN INSTITUTION FOLLOWS, SETTING FUND-RAISING PRIORITIES IS COMPLEX AND SUBJECT TO AMBIGUITY.

A typical process to set fund-raising priorities might resemble the following. The governing board, administration, and faculty decide overall institutional goals. Once that process is complete, a committee composed of the president, senior administrators, faculty, and perhaps students reviews all plans and proposals to determine priorities. Then, each priority is assigned one or more potential sources of support from state operating and capital budgets, federal funds (overhead or project-specific), tuition and fee revenues, special student fees, and annual and capital private gifts. The committee might create a list of the funding priorities and potential sources of support to help manage and track what easily can become a complicated and unwieldy review process.

Once the review is complete, the priorities assigned to "annual and capital private gifts" are forwarded to a development group usually chaired by the president or chancellor of the institution. The group also includes other administrators (such as the chief financial officer), faculty, students, and the foundation chief executive. At this point, the foundation is responsible for determining the feasibility of raising private funds for the proposed projects. For each project, foundation board members provide guidance for this committee in asking these questions of a group representing potential donors, volunteer leaders, and other individuals or groups.

- What is the institution's potential for raising funds for this specific project?
- What effect will raising funds for this project have on other ongoing or potential fund-raising projects?
- What resources will be required to raise the funds?

These questions are, in essence, the outline of a feasibility study. Appropriate committees review the answers and use the information to determine which projects the institution will direct the foundation to pursue.

Regardless of the specific process an institution follows, setting fund-raising priorities is complex and subject to ambiguity. The process is greatly simplified (and probably made more effective) when foundation and governing board members are willing to collaborate on policies and procedures that serve the institution's best interests and make best use of the foundation's unique capabilities.

**Partners—But Not Too Close.** Such collaboration describes a hand-in-glove arrangement between an institution and a not-for-profit corporation. Clearly, this model positions the foundation as the institution's development operation. Its every operation—raising, managing, and administering funds—is carried out with full knowledge and understanding between the governing board and the foundation board.

If an institution is considering establishing a foundation to take advantage of increased flexibility to pursue opportunities, the governing board must examine state statutes closely. Here's why: If a state auditor regards foundations as extensions of state agencies—and this is a matter of law in many states—the foundations are subject to the same requirements that regulate the institution. Consequently, the sought-after flexibility can be lost. Institutional leaders should consider carefully the following questions, among others germane to their institutions' specific mission and operations:

- Can institutional officials serve as full voting members of the foundation board?
- Is the foundation subject to state rules and regulations regarding purchasing?
- Can foundation employees handle gifts directed to the institution itself?
- Is the foundation subject to state audit, rather than audit by an independent auditing firm? Which audit rules apply?

**Funding the Foundation.** The familiar adage *You have to spend money to make money* is true. Success in fund-raising requires investment in fund-raising. The perennial issue—how much to spend versus the expected return—warrants a separate discussion. It should suffice to say that adequate resources must be budgeted for fund-raising, regardless of whether an institution maintains a separate foundation.

To estimate fund-raising costs, institutional and foundation leaders must identify and agree on what tasks to carry out. Based on such an agreement, it is a small step to estimate the costs of implementing those tasks and developing a contract under which the institution agrees to pay a fee for services rendered by the foundation. Ultimately, development costs can be covered in only two ways (1) take expenses from gifts or other sources of income or (2) pay costs out of institutional funds. The specific arrangement should be worked out in detail and made public. The more straightforward and businesslike it is, the better for all concerned.

**Tailoring the Foundation to the Institution.** The character of the institution determines the character of its affiliated foundation. A multicampus university with a strong, effective, central-system administration can rely on a single foundation to serve its purposes successfully. However, if individual campuses of a multicampus university have a tradition of substantial autonomy, little chance exists that a single foundation will serve the entire system effectively. The system will be better served by establishing or sanctioning individual fund-raising operations to focus on the unique character and needs of each campus.

For example, each campus in the University of California System, which has several foundations, has considerable autonomy. The system's governing board created operational guidelines that allow each foundation to fulfill its responsibilities within systemwide policies and procedures. Indiana University, an eight-campus system with a strong central administration, is an example of a multicampus system well served by a single-foundation model.

GOVERNING BOARDS MUST STRIKE A BALANCE BETWEEN FLEXIBILITY AND CONTROL. FINDING AND MAINTAINING THIS BALANCE MAY BE ONE OF THE GREATEST GIFTS BOARDS CAN GIVE THEIR INSTITUTIONS.

It is possible, although difficult, for a single campus to have multiple foundations. In this situation, each foundation board must set its own priorities, and each functions somewhat independently—and not necessarily in concert either with the other foundations or with institutional priorities. Managing prospects—who will ask whom, for what, and when—is considerably more complex when a single organization does not coordinate solicitation and stewardship efforts. Further, it is nearly impossible for a governing board to interact effectively with the boards of multiple foundations. At best, the governing board can offer only guidelines for their operations.

**A Final Guiding Principle.** Enable rather than restrict. This is the most important principle for trustees and regents to remember regarding their institution's independent foundation. Maximize fully the advantages and benefits an independent foundation offers, and do not regulate the foundation so tightly that it loses its unique ability to advance the institution.

Governing boards must strike a balance between flexibility and control. Finding and maintaining this balance may be one of the greatest gifts boards can give their institutions.

## Resources


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BOARD BASICS

This publication is part of **Board Basics**, an AGB series devoted to strengthening the effectiveness of governing boards and trustees. Board Basics comprises several topic clusters—The Fundamentals, Financial Matters, Fund-Raising, Academic Affairs, Leadership, Strategic Decisions, and Effective Committees—each of which contains several booklets. Several assumptions underlie the series:

- Academic trusteeship grows increasingly ambiguous, and trustees need concise, accessible, and focused information to help them carry out their complex fiduciary and stewardship responsibilities.
- Basic principles of trusteeship remain constant across higher education, regardless of institutional type, size, and mission. The series highlights these general principles to provide trustees with a core of knowledge they can apply to their individual institutions.
- The series addresses the distinguishing characteristics of academic trusteeship, especially as it differs in scope, substance, and focus from corporate directorships and other board service.

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